

CITY OF MADRID

**Independent Auditors' Reports
Basic Financial Statements
Supplementary and Other Information
Schedule of Findings and Questioned Costs**

June 30, 2013

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CITY OF MADRID

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jeff Gibbons	Mayor	Jan 2016
Donald Lincoln	Mayor Pro Tem	Jan 2014
Steve Burich	Council Member	Jan 2014
Val Chapman	Council Member	Jan 2014
Dave Cook	Council Member	Jan 2016
Lane Shaver	Council Member	Jan 2016
Todd Kilzer	City Administrator	Indefinite
Donald Fatka	City Treasurer	Indefinite
John Jordan	City Attorney	Indefinite



C E R T I F I E D ♦ P U B L I C ♦ A C C O U N T A N T S

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Independent Auditors' Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Madrid's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the nine years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 23 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated November 15, 2013 on our consideration of the City of Madrid's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Madrid's internal control over financial reporting and compliance.

Bowman and Miller, P.C.

Marshalltown, Iowa
November 15, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Madrid provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 93.1%, or approximately \$2,932,000, from fiscal year 2012 to fiscal year 2013. Property tax increased approximately \$71,000 while bond proceeds and capital grants, contributions and restricted interest increased approximately \$1,426,000 and \$1,412,000, respectively.
- Disbursements of the City's governmental activities increased 130.1%, or approximately \$2,891,000, in fiscal year 2013 from fiscal year 2012. Culture and recreation, community and economic development, and capital projects disbursements increased approximately \$58,000, \$48,000, and \$2,792,000, respectively.
- The City's total cash basis net position increased 42.7%, or approximately \$1,097,000, from June 30, 2012 to June 30, 2013. Of this amount, the cash basis net position of the governmental activities increased approximately \$967,000 and the cash basis net position of the business type activities increased approximately \$130,000.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax, Employee Benefits and Emergency, 3) the Debt Service Fund, and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

- 2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased significantly from a year ago, increasing from approximately \$1,840,000 to approximately \$2,807,000. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities			
		Year ended June 30,	
		2013	2012
Receipts:			
Program receipts:			
Charges for service	\$	272,074	212,731
Operating grants, contributions and restricted interest		330,923	353,468
Capital grants, contributions and restricted interest		1,650,124	238,162
General receipts:			
Property tax		859,546	788,247
Tax increment financing		106,304	104,930
Other city tax		198,746	210,326
Special assessments		7,235	3,317
Unrestricted interest on investments		2,462	5,663
Bond proceeds		2,650,000	1,223,892
Other general receipts		2,870	7,888
Total receipts		<u>6,080,284</u>	<u>3,148,624</u>
Disbursements:			
Public safety		316,305	319,403
Public works		432,110	472,242
Health and social services		4,160	4,000
Culture and recreation		287,767	229,810
Community and economic development		73,132	25,247
General government		167,294	167,207
Debt service		433,087	397,472
Capital projects		<u>3,399,615</u>	<u>607,254</u>
Total disbursements		<u>5,113,470</u>	<u>2,222,635</u>
Change in cash basis net position before transfers		966,814	925,989
Transfers, net		<u>-</u>	<u>66,450</u>
Change in cash basis net position		966,814	992,439
Cash basis net position beginning of year		<u>1,840,377</u>	<u>847,938</u>
Cash basis net position end of year	\$	<u>2,807,191</u>	<u>1,840,377</u>

The City's total receipts for governmental activities increased 93.1%, or approximately \$2,932,000. The total cost of all programs and services increased approximately \$2,891,000, or 130.1%, with no new programs added this year. The increase in receipts was primarily the result of an increase in bond proceeds and capital grants, contributions and restricted interest. The City received \$2,650,000 in bond proceeds and \$1,650,124 in capital grants, contributions and restricted interest during the year for on-going capital projects, mainly a drainage canal and sanitary sewer project and a wastewater treatment facility project.

The City did not increase property tax rates for fiscal year 2013, however, property tax receipts increased approximately \$71,300 from the prior year due to the City's total assessed valuation increase. Based on a slight increase in property tax rates and increases in the total assessed valuation, property tax receipts are budgeted to increase an additional \$65,000 next year.

The cost of all governmental activities this year was approximately \$5,113,000 compared to approximately \$2,223,000 last year. However, as shown in the Statement of Activities and Net Position on pages 10 – 11, the amount taxpayers ultimately financed for these activities was only \$2,860,349 because some of the cost was paid by those directly benefited from the programs (\$272,074) or by other governments and organizations which subsidized certain programs with grants, contributions and restricted interest (\$1,981,047). Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for service, increased in fiscal year 2013 from approximately \$804,000 to approximately \$2,253,000. The City paid for the remaining "public benefit" portion of governmental activities (\$2,860,349) with taxes (some of which could only be used for certain programs) and other receipts, such as interest and other general receipts.

Changes in Cash Basis Net Position of Business Type Activities			
		Year ended June 30,	
		2013	2012
Receipts:			
Program receipts:			
Charges for service:			
Water	\$	382,420	388,055
Sewer		255,721	245,608
General receipts:			
Unrestricted interest on investments		1,198	2,397
Other general receipts		12,689	11,386
Total receipts		<u>652,028</u>	<u>647,446</u>
Disbursements:			
Water		376,115	338,353
Sewer		<u>145,700</u>	<u>148,748</u>
Total disbursements		<u>521,815</u>	<u>487,101</u>
Change in cash basis net position before transfers		130,213	160,345
Transfers, net		<u>-</u>	<u>(66,450)</u>
Change in cash basis net position		130,213	93,895
Cash basis net position beginning of year		<u>726,397</u>	<u>632,502</u>
Cash basis net position end of year	\$	<u>856,610</u>	<u>726,397</u>

Total business type activities receipts for the fiscal year were approximately \$652,000 compared to approximately \$647,000 last year. The slight increase was primarily due to an increase in water and sewer usage during the year. Total disbursements for the fiscal year increased 7.1% to approximately \$522,000. The increase was primarily due to increased building and maintenance costs on the water plant. The cash balance of business type activities increased approximately \$130,000 from the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Madrid completed the year, its governmental funds reported a combined fund balance of \$2,807,191, an increase of \$966,814 from last year's total of \$1,840,377. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$92,767 from the prior year to \$707,470. This is mainly due to an increase in property tax revenue.

- The Special Revenue, Road Use Tax Fund cash balance increased from \$173,926 to \$230,692. This increase is the result of fewer operating expenses related to street resurfacing compared to the prior year.
- The Special Revenue, Employee Benefits Fund cash balance decreased \$28,911 to \$34,687 due to no funds being transferred in from the general fund.
- The Special Revenue, Emergency Fund cash balance increased \$13,257 due to the funds received not being transferred out to other funds.
- The Debt Service Fund cash balance decreased \$18,349 due to an increase in debt costs and fewer funds being transferred in compared to the prior year.
- The Capital Projects Fund cash balance increased \$852,405 to \$1,768,690 during the fiscal year. The increase is primarily a result of an increase in bond proceeds and the receipt of a CDBG grant for the drainage canal and sanitary sewer system project.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$15,242 to \$384,139. This is a result of no funds being transferred out to other funds.
- The Enterprise, Sewer Fund cash balance increased \$114,971 to \$472,471 due primarily to an increase in usage during the year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The budget amendment was approved on May 9, 2013, and included a decrease of \$38,672 to revenues and an increase of \$2,188,706 to disbursements. The amendment was mainly the result of more capital project work being done than planned.

Even with the budget amendment, the City exceeded amounts budgeted in the community and economic development, general government, and debt service functions for the year ended June 30, 2013.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$5,680,750 in bonds and other long-term debt outstanding, compared to \$3,306,189 last year, as shown below.

		Outstanding Debt at Year-End	
		June 30,	
		2013	2012
General obligation bonds and note	\$	3,930,750	3,305,750
Revenue bonds		1,750,000	-
Other long-term debt		-	439
Total	\$	<u>5,680,750</u>	<u>3,306,189</u>

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,930,750 is below its constitutional debt limit of \$4,776,097.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Madrid's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Todd Kilzer, City Administrator, 304 S. Water Street, Madrid, Iowa 50156.

CITY OF MADRID
Cash Basis Statement of Activities and Net Position
As of and for the year ended June 30, 2013

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 316,305	157	33,123	-
Public works	432,110	155,831	243,533	-
Health and social services	4,160	5,490	-	-
Culture and recreation	287,767	47,039	54,267	-
Community and economic development	73,132	-	-	-
General government	167,294	63,557	-	-
Debt service	433,087	-	-	-
Capital projects	3,399,615	-	-	1,650,124
Total governmental activities	5,113,470	272,074	330,923	1,650,124
Business type activities:				
Water	376,115	382,420	-	-
Sewer	145,700	255,721	-	-
Total business type activities	521,815	638,141	-	-
Total	\$ 5,635,285	910,215	330,923	1,650,124
General receipts:				
Property tax levied for:				
General purposes				
Debt service				
Employee benefits				
Emergency				
Tax increment financing				
Other city tax				
Unrestricted interest on investments				
Special assessments				
Bond proceeds				
Miscellaneous				
Total general receipts				
Change in cash basis net position				
Cash basis net position beginning of year				
Cash basis net position end of year				
Cash Basis Net Position				
Restricted:				
Expendable:				
Streets				
Employee benefits				
Debt service				
Capital projects				
Other purposes				
Unrestricted				
Total cash basis net position				

Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
Governmental Activities	Business Type Activities	Total
(283,025)	-	(283,025)
(32,746)	-	(32,746)
1,330	-	1,330
(186,461)	-	(186,461)
(73,132)	-	(73,132)
(103,737)	-	(103,737)
(433,087)	-	(433,087)
(1,749,491)	-	(1,749,491)
(2,860,349)	-	(2,860,349)
-	6,305	6,305
-	110,021	110,021
-	116,326	116,326
(2,860,349)	116,326	(2,744,023)
472,129	-	472,129
242,373	-	242,373
132,107	-	132,107
12,937	-	12,937
106,304	-	106,304
198,746	-	198,746
2,462	1,198	3,660
7,235	-	7,235
2,650,000	-	2,650,000
2,870	12,689	15,559
3,827,163	13,887	3,841,050
966,814	130,213	1,097,027
1,840,377	726,397	2,566,774
\$ 2,807,191	856,610	3,663,801
\$ 230,692	-	230,692
34,687	-	34,687
4,592	-	4,592
1,768,690	-	1,768,690
61,060	-	61,060
707,470	856,610	1,564,080
\$ 2,807,191	856,610	3,663,801

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2013

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Receipts:				
Property tax	\$ 472,129	-	132,107	12,937
Tax increment financing	-	-	-	-
Other city tax	189,526	-	3,268	320
Licenses and permits	63,556	-	-	-
Use of money and property	4,087	-	-	-
Intergovernmental	43,095	243,533	-	-
Charges for service	206,735	-	-	-
Special assessments	-	-	-	-
Miscellaneous	47,068	241	-	-
Total receipts	1,026,196	243,774	135,375	13,257
Disbursements:				
Operating:				
Public safety	244,092	-	72,213	-
Public works	197,494	187,008	47,608	-
Health and social services	4,160	-	-	-
Culture and recreation	272,709	-	15,058	-
Community and economic development	73,132	-	-	-
General government	136,842	-	29,407	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	928,429	187,008	164,286	-
Excess (deficiency) of receipts over (under) disbursements	97,767	56,766	(28,911)	13,257
Other financing sources (uses):				
Bond proceeds	-	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(5,000)	-	-	-
Total other financing sources (uses)	(5,000)	-	-	-
Net change in cash balances	92,767	56,766	(28,911)	13,257
Cash balances beginning of year	614,703	173,926	63,598	-
Cash balances end of year	\$ 707,470	230,692	34,687	13,257

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
242,373	-	-	859,546
-	-	106,304	106,304
5,632	-	-	198,746
-	-	-	63,556
-	-	14	4,101
-	1,650,124	-	1,936,752
-	-	-	206,735
7,235	-	-	7,235
-	-	-	47,309
255,240	1,650,124	106,318	3,430,284
-	-	-	316,305
-	-	-	432,110
-	-	-	4,160
-	-	-	287,767
-	-	-	73,132
-	-	1,045	167,294
384,983	48,104	-	433,087
-	3,399,615	-	3,399,615
384,983	3,447,719	1,045	5,113,470
(129,743)	(1,797,595)	105,273	(1,683,186)
-	2,650,000	-	2,650,000
111,304	-	-	111,304
-	-	(106,304)	(111,304)
111,304	2,650,000	(106,304)	2,650,000
(18,439)	852,405	(1,031)	966,814
23,031	916,285	48,834	1,840,377
4,592	1,768,690	47,803	2,807,191

CITY OF MADRID
Statement of Cash Receipts, Disbursements and
Changes in Cash Balances
Governmental Funds (Continued)
As of and for the year ended June 30, 2013

	General	Special Revenue		
		Road Use Tax	Employee Benefits	Emergency
Cash Basis Fund Balances				
Restricted for:				
Streets	\$ -	230,692	-	-
Employee benefits	-	-	34,687	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Other purposes	-	-	-	13,257
Assigned for:				
Fire equipment	46,894	-	-	-
Park	10,543	-	-	-
Unassigned	650,033	-	-	-
Total cash basis fund balances	\$ 707,470	230,692	34,687	13,257

Debt Service	Capital Projects	Other Nonmajor Governmental Funds	Total
-	-	-	230,692
-	-	-	34,687
4,592	-	-	4,592
-	1,768,690	-	1,768,690
-	-	47,803	61,060
-	-	-	46,894
-	-	-	10,543
-	-	-	650,033
4,592	1,768,690	47,803	2,807,191

CITY OF MADRID
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds
As of and for the year ended June 30, 2013

Exhibit C

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 382,420	255,721	638,141
Miscellaneous	8,602	4,087	12,689
Total operating receipts	<u>391,022</u>	<u>259,808</u>	<u>650,830</u>
Operating disbursements:			
Business type activities	<u>376,115</u>	<u>145,700</u>	<u>521,815</u>
Excess of operating receipts over operating disbursements	14,907	114,108	129,015
Non-operating receipts:			
Interest on investments	<u>335</u>	<u>863</u>	<u>1,198</u>
Excess of receipts over disbursements	<u>15,242</u>	<u>114,971</u>	<u>130,213</u>
Change in cash balances	15,242	114,971	130,213
Cash balances beginning of year	<u>368,897</u>	<u>357,500</u>	<u>726,397</u>
Cash balances end of year	<u>\$ 384,139</u>	<u>472,471</u>	<u>856,610</u>
Cash Basis Fund Balances			
Unreserved	\$ 384,139	472,471	856,610
Total cash basis fund balances	<u>\$ 384,139</u>	<u>472,471</u>	<u>856,610</u>

CITY OF MADRID

Notes to Financial Statements

June 30, 2013

(1) Summary of Significant Accounting Policies

The City of Madrid is a political subdivision of the State of Iowa located in Boone County. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Madrid has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City of Madrid has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provides goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards: Boone County Landfill Commission, Emergency Management Board, Madrid Historical Society Board, Lowery Trust Board, Central Iowa Regional Housing Authority, and the Boone County 911 Board. The City also has a cost-sharing agreement with the Boone County Sheriff Department for communication costs.

B. Basis of Presentation

Government-wide Financial Statement – The Cash Basis Statement of Activities and Net Position (previously referred to as net assets) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require them to be maintained permanently by the City.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Emergency Fund is used to account for property taxes levied to pay for emergency purposes.

The Employee Benefits Fund is used to account for property taxes levied to pay employee taxes and benefits.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting

The City of Madrid maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

CITY OF MADRID

Notes to Financial Statements (Continued)

June 30, 2013

(1) Summary of Significant Accounting Policies (Continued)

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the community and economic development, general government, and debt service functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

At June 30, 2013, the City had the following investment:

	<u>Cost</u>	<u>Market Value</u>
19 Shares IBM Stock	<u>\$757</u>	<u>\$3,631</u>

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and note are as follows:

Year Ending June 30	General Obligation Bonds		General Obligation Note		Revenue Bonds		Total	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2014	\$ 270,000	40,725	22,594	5,965	80,000	27,510	372,594	74,200
2015	295,000	57,418	22,594	5,219	85,000	26,140	402,594	88,777
2016	295,000	55,501	22,594	4,486	90,000	24,645	407,594	84,632
2017	290,000	53,141	22,594	3,728	90,000	23,095	402,594	79,964
2018	280,000	49,951	22,594	2,982	90,000	21,545	392,594	74,478
2019-2023	1,465,000	182,550	67,780	4,478	475,000	135,247	2,007,780	322,275
2024-2028	855,000	42,120	-	-	485,000	106,075	1,340,000	148,195
2029-2033	-	-	-	-	355,000	38,340	355,000	38,340
Total	<u>\$ 3,750,000</u>	<u>481,406</u>	<u>180,750</u>	<u>26,858</u>	<u>1,750,000</u>	<u>402,597</u>	<u>5,680,750</u>	<u>910,861</u>

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2013

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2013, 2012 and 2011 were \$50,677, \$47,912, and \$41,280 respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer retiree benefit plan which provides medical/prescription drug benefits for retirees and their spouses. There are 10 active and -0- retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$399 for single coverage and \$1,225 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed 100% of the plan membership at a cost of \$107,108.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2013, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	<u>\$ 20,782</u>

This liability has been computed based on rates of pay in effect at June 30, 2013.

CITY OF MADRID
Notes to Financial Statements (Continued)
June 30, 2013

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue:	
	Tax Increment Financing	\$ 106,304
Debt Service	General	<u>5,000</u>
Total		<u>\$ 111,304</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(8) Risk Management

The City of Madrid is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) Commitments

The City is currently engaged in several major construction projects. The City has entered into a construction contract totaling \$2,032,824 for a drainage canal and sanitary sewer project to be financed by a Community Development Block Grant and bond proceeds. At June 30, 2013, costs of \$412,733 were left to be incurred on this project.

The City has entered into a construction contract for an improvement project to the wastewater treatment facility totaling \$1,069,745. At June 30, 2013, there was still \$385,200 remaining on the contract.

The City has also entered into two different construction contracts for another storm sewer and sanitary sewer improvement project. The two contracts total \$203,123 and \$179,443, respectively, and the amounts remaining on the contracts were \$80,927 and \$144,901, respectively, at June 30, 2013.

(10) Subsequent Events

The City has evaluated all subsequent events through November 15, 2013, the date the financial statements were available to be issued.

CITY OF MADRID
Budgetary Comparison Schedule of Receipts, Disbursements,
and Changes in Balances-Budget and Actual (Cash Basis)
All Governmental Funds and Proprietary Funds
Other Information
Year ended June 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 859,546	-
Tax increment financing	106,304	-
Other city tax	198,746	-
Licenses and permits	63,556	-
Use of money and property	4,101	1,198
Intergovernmental	1,936,752	-
Charges for service	206,735	638,141
Special assessments	7,235	-
Miscellaneous	47,309	12,689
Total receipts	<u>3,430,284</u>	<u>652,028</u>
Disbursements:		
Public safety	316,305	-
Public works	432,110	-
Health and social services	4,160	-
Culture and recreation	287,767	-
Community and economic development	73,132	-
General government	167,294	-
Debt service	433,087	-
Capital projects	3,399,615	-
Business type activities	-	521,815
Total disbursements	<u>5,113,470</u>	<u>521,815</u>
Excess (deficiency) of receipts over (under) disbursements	(1,683,186)	130,213
Other financing sources, net	<u>2,650,000</u>	-
Excess of receipts and other financing sources over disbursements and other financing uses	966,814	130,213
Balances beginning of year	<u>1,840,377</u>	<u>726,397</u>
Balances end of year	<u>\$ 2,807,191</u>	<u>856,610</u>

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
859,546	859,726	859,726	(180)
106,304	105,775	105,775	529
198,746	197,226	196,226	2,520
63,556	14,400	48,350	15,206
5,299	9,200	17,200	(11,901)
1,936,752	1,965,570	1,935,018	1,734
844,876	825,700	863,980	(19,104)
7,235	9,200	3,000	4,235
59,998	117,000	35,850	24,148
4,082,312	4,103,797	4,065,125	17,187
316,305	352,220	346,695	30,390
432,110	464,610	450,860	18,750
4,160	4,200	4,160	-
287,767	234,960	299,330	11,563
73,132	32,500	61,500	(11,632)
167,294	155,185	152,325	(14,969)
433,087	371,229	352,204	(80,883)
3,399,615	1,859,585	3,968,381	568,766
521,815	514,670	542,410	20,595
5,635,285	3,989,159	6,177,865	542,580
(1,552,973)	114,638	(2,112,740)	559,767
2,650,000	-	2,238,000	412,000
1,097,027	114,638	125,260	971,767
2,566,774	1,581,244	2,566,774	-
3,663,801	1,695,882	2,692,034	971,767

CITY OF MADRID
Notes to Other Information – Budgetary Reporting
June 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$2,188,706. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the community and economic development, general government, and debt service functions.

CITY OF MADRID
Schedule of Cash Receipts, Disbursements and
Changes in Cash Balances
Nonmajor Governmental Funds
As of and for the year ended June 30, 2013

	Special Revenue			
	Boyd Library	Helms Estate	Tax Increment Financing	Total
Receipts:				
Tax increment financing	\$ -	-	106,304	106,304
Use of money and property	9	5	-	14
Total receipts	9	5	106,304	106,318
Disbursements:				
Operating:				
General government	-	1,045	-	1,045
Total disbursements	-	1,045	-	1,045
Excess (deficiency) of receipts over (under) disbursements	9	(1,040)	106,304	105,273
Other financing uses:				
Operating transfers out	-	-	(106,304)	(106,304)
Net change in cash balances	9	(1,040)	-	(1,031)
Cash balances beginning of year	28,779	19,750	305	48,834
Cash balances end of year	\$ 28,788	18,710	305	47,803
Cash Basis Fund Balances				
Restricted for other purposes	\$ 28,788	18,710	305	47,803
Total cash basis fund balances	\$ 28,788	18,710	305	47,803

CITY OF MADRID
Schedule of Indebtedness
Year ended June 30, 2013

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Corporate purpose and refinancing	Apr 15, 2008	2.50 - 4.25 %	\$ 2,140,000
Fire truck acquisition	Jan 26, 2011	3.30	180,750
Corporate purpose and refinancing	Mar 27, 2012	.35-2.55	2,925,000
Corporate purpose and refinancing	Jun 4, 2013	1.10 - 2.20	900,000
Total			
Revenue bonds:			
Sewer	Jun 4, 2013	1.10 - 3.55 %	\$ 1,160,000
Water	Jun 4, 2013	2.50	590,000
Total			
Bank loan:			
Police car	Aug 9, 2009	4.50 %	\$ 15,010

Schedule 2

	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$	310,000	-	140,000	170,000	55,555	-
	180,750	-	-	180,750	5,960	-
	2,815,000	-	135,000	2,680,000	33,044	-
	-	900,000	-	900,000	-	-
\$	3,305,750	900,000	275,000	3,930,750	94,559	-
\$	-	1,160,000	-	1,160,000	-	-
	-	590,000	-	590,000	-	-
\$	-	1,750,000	-	1,750,000	-	-
\$	439	-	439	-	-	-

CITY OF MADRID
Bond and Note Maturities
June 30, 2013

Year Ending June 30,	General Obligation Bonds					
	Corporate Purpose and Refinancing		Corporate Purpose and Refinancing		Corporate Purpose and Refinancing	
	Issued Apr 15, 2008		Issued Mar 27, 2012		Issued Jun 4, 2013	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2014	3.40 %	\$ 170,000	0.55 %	\$ 100,000	1.10 %	\$ -
2015	-	-	0.65	295,000	1.10	-
2016	-	-	0.80	295,000	1.10	-
2017	-	-	1.10	275,000	1.10	15,000
2018	-	-	1.20	210,000	1.10	70,000
2019	-	-	1.80	220,000	1.10	60,000
2020	-	-	1.80	225,000	1.95	65,000
2021	-	-	1.80	230,000	1.95	65,000
2022	-	-	1.80	230,000	1.95	70,000
2023	-	-	2.10	115,000	1.95	185,000
2024	-	-	2.25	120,000	2.20	185,000
2025	-	-	2.35	120,000	2.20	185,000
2026	-	-	2.45	120,000	-	-
2027	-	-	2.55	125,000	-	-
Total		<u>\$ 170,000</u>		<u>\$ 2,680,000</u>		<u>\$ 900,000</u>

Year Ending June 30,	Revenue Bonds					
	Sewer		Water			
	Issued Jun 4, 2013		Issued Jun 4, 2013			
	Interest Rate	Amount	Interest Rate	Amount	Total	
2014	1.10 %	\$ 45,000	2.50 %	\$ 35,000	80,000	
2015	1.10	45,000	2.50	40,000	85,000	
2016	1.10	50,000	2.50	40,000	90,000	
2017	1.10	50,000	2.50	40,000	90,000	
2018	1.10	50,000	2.50	40,000	90,000	
2019	2.35	50,000	2.50	40,000	90,000	
2020	2.35	50,000	2.50	40,000	90,000	
2021	2.35	55,000	2.50	40,000	95,000	
2022	2.35	55,000	2.50	45,000	100,000	
2023	2.35	55,000	2.50	45,000	100,000	
2024	3.50	55,000	2.50	45,000	100,000	
2025	3.50	60,000	2.50	45,000	105,000	
2026	3.50	60,000	2.50	45,000	105,000	
2027	3.50	60,000	2.50	50,000	110,000	
2028-2033	3.50-3.55	420,000	-	-	420,000	
Total		<u>\$ 1,160,000</u>		<u>\$ 590,000</u>	<u>1,750,000</u>	

General Obligation Note				
Fire Truck				
Acquisition				
Issued Jan 26, 2011				
Interest				
Rates		Amount		Total
3.30 % \$		22,594		292,594
3.30		22,594		317,594
3.30		22,594		317,594
3.30		22,594		312,594
3.30		22,594		302,594
3.30		22,594		302,594
3.30		22,593		312,593
3.30		22,593		317,593
-		-		300,000
-		-		300,000
-		-		305,000
-		-		305,000
-		-		120,000
-		-		125,000
		<u>\$ 180,750</u>		<u>3,930,750</u>

CITY OF MADRID
Schedule of Receipts By Source and Disbursements by Function-
All Governmental Funds
For the Last Ten Years

	2013	2012	2011	2010
Receipts:				
Property tax	\$ 859,546	788,247	759,077	740,006
Tax increment financing	106,304	104,930	86,754	42,580
Other city tax	198,746	210,326	189,546	184,018
Licenses and permits	63,556	9,143	17,358	14,429
Use of money and property	4,101	7,432	11,959	12,488
Intergovernmental	1,936,752	533,370	462,546	407,747
Charges for services	206,735	200,046	199,009	197,658
Special assessments	7,235	3,317	4,865	11,048
Miscellaneous	47,309	67,921	79,273	174,843
Total	\$ 3,430,284	1,924,732	1,810,387	1,784,817
Disbursements:				
Operating:				
Public safety	\$ 316,305	319,403	468,790	313,050
Public works	432,110	472,242	409,121	426,480
Health and social services	4,160	4,000	4,000	4,000
Culture and recreation	287,767	229,810	221,489	372,128
Community and economic development	73,132	25,247	35,404	81,105
General government	167,294	167,207	139,870	135,435
Debt service	433,087	397,472	355,335	362,222
Capital projects	3,399,615	607,254	152,112	95,757
Total	\$ 5,113,470	2,222,635	1,786,121	1,790,177

2009	2008	2007	2006	2005	2004
681,460	630,677	588,149	472,709	452,153	442,715
-	-	-	-	-	-
196,485	190,788	180,565	202,013	183,946	188,857
13,975	9,941	12,364	16,629	11,201	1,912
15,304	45,888	34,033	23,586	12,134	16,595
332,053	239,585	425,411	502,833	248,810	231,545
203,925	184,450	169,381	175,502	173,812	128,726
7,717	5,449	13,172	18,275	18,499	19,400
137,522	78,354	39,638	55,900	72,558	67,744
1,588,441	1,385,132	1,462,713	1,467,447	1,173,113	1,097,494
279,988	559,301	328,991	305,736	301,401	292,206
416,309	378,406	373,658	405,484	379,831	355,629
4,000	4,049	3,802	3,600	3,606	3,530
285,361	215,486	240,583	197,725	185,677	167,677
57,774	29,854	22,210	62,403	15,570	8,902
134,075	158,746	147,211	145,762	154,092	121,865
356,042	2,410,641	289,398	267,243	264,385	224,577
48,617	1,173,743	217,010	369,431	465,860	227,732
1,582,166	4,930,226	1,622,863	1,757,384	1,770,422	1,402,118

CITY OF MADRID
Schedule of Expenditures of Federal Awards
June 30, 2013

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/State's Program and Non Entitlement Grants in Hawaii	14.228	08-DRI-284	\$ 1,528,283
U.S. Department of Transportation:			
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP-12-03	1,863
U.S. Department of Homeland Security:			
Iowa Department of Public Defense:			
Iowa Department of Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	DR-1763	109,657
Total			<u>\$ 1,639,803</u>

Basis of Presentation - The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Madrid and is presented in conformity with an other comprehensive basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.



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Independent Auditors' Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited in accordance with U.S. generally accepted accounting standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Madrid, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 15, 2013. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Madrid's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Madrid's internal control. Accordingly, we do not express an opinion on the effectiveness of the City Madrid's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified deficiencies in internal control we consider to be a material weakness and a significant deficiency.

A deficiency in internal control exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Madrid's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in Part II of the accompanying Schedule of Findings as item II-A-13 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiency described in Part II of the accompanying Schedule of Findings and Questioned Costs as item II-B-13 to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Madrid's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Madrid's Responses to Findings

The City of Madrid's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. The City of Madrid's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Madrid during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Bowman and Miller, P.C.

Marshalltown, Iowa
November 15, 2013



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Independent Auditors' Report on Compliance
for Each Major Federal Program, on Internal Control over Compliance
and on the Schedule of Expenditures of Federal Awards
Required by OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Report on Compliance for Each Major Federal Program

We have audited the City of Madrid, Iowa's compliance with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on the City of Madrid's major federal program for the year ended June 30, 2013. The City of Madrid's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for the City of Madrid's major federal program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Madrid's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe our audit provides a reasonable basis for our opinion on compliance for the major federal program. However, our audit does not provide a legal determination of the City of Madrid's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Madrid complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2013.

Report on Internal Control Over Compliance

The management of the City of Madrid is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City of Madrid's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Madrid's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance such that there is a reasonable possibility material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis. We did not identify any deficiencies in internal control that we consider to be a material weakness, as defined above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on the Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of Madrid as of and for the year ended June 30, 2013, and have issued our report dated November 15, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming opinions on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the Schedule of Expenditures of Federal Awards is fairly stated in all material respects in relation to the financial statements as a whole.

Bowman and Miller, P.C.

Marshalltown, Iowa
November 15, 2013

CITY OF MADRID
Schedule of Findings & Questioned Costs
Year ended June 30, 2013

Part I: Summary of the Independent Auditors' Results:

- (a) Unmodified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) A significant deficiency and a material weakness in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses over internal control for major programs were noted.
- (e) An unmodified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose any audit findings required to be reported in accordance with Office of Management and Budget Circular A-13, Section .510(a).
- (g) The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program and Non-Entitlement Grants in Hawaii.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Madrid did not qualify as a low-risk auditee.

CITY OF MADRID
Schedule of Findings & Questioned Costs (Continued)
Year ended June 30, 2013

Part II: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCY:

II-A-13 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted one person has control over each of the following areas:

- (1) Cash receipts - collecting, depositing, journalizing, and posting
- (2) Payroll preparation and distribution.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – I have oversight over payroll which Mary Jo does. Mary Jo and Deb both prepare and check each other's deposits.

Conclusion – Response accepted.

II-B-13 Bank Reconciliations – Bank accounts are reconciled monthly, however, they are not being reconciled back to the City's fund balance resulting in outstanding discrepancies between actual cash balances and fund balance within the system.

Recommendation – To improve financial accountability and control, fund balances should be reconciled to the bank balances monthly and variances resolved on a timely basis.

Response – We will comply as recommended.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

No material weaknesses in internal control over the major program were noted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-13 Certified Budget – The Council amended the budget in May 2013, however, disbursements exceeded the amounts budgeted in the community and economic development, general government, and debt service functions during the year ended June 30, 2013. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – We will amend our budget as necessary and required.

Conclusion – Response accepted.

IV-B-13 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

IV-C-13 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-13 Business Transactions – No business transactions between the City and City officials or employees were noted.

IV-E-13 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.

IV-F-13 Council Minutes – No transactions were found that we believe should have been approved in the council minutes but were not.

The City Council went into closed session on July 2, 2012. The minutes record did not document the reason for the closed session by reference to a specific Code of Iowa exemption nor document a roll call vote as required by Chapter 21.5 of the Code of Iowa.

Recommendation – The City should comply with Chapter 21 of the Code of Iowa.

Response – We will fully comply with Chapter 21 of the Iowa Code requirements.

Conclusion – Response accepted.

CITY OF MADRID
Schedule of Findings (Continued)
Year ended June 30, 2013

Part IV: Other Findings Related to Required Statutory Reporting (Continued):

IV-G-13 Deposits and Investments – The City has adopted an appropriate investment policy in accordance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa. However, the City has received and continues to hold shares of common stock as a donation for the new library. The holding of common stock is in violation of Chapter 12B of the Code of Iowa.

Recommendation – The City should dispose of the stock in order to comply with Chapter 12B of the Code of Iowa.

Response – We will dispose of the stock accordingly.

Conclusion – Response accepted.

IV-H-13 Transfers – The City made two transfers of monies to and from funds. However, these transfers were not approved by the Council prior to the actual transfer.

Recommendation – The City should approve all fund transfers prior to the actual transfer and document the approval and amounts in the minutes.

Response – We will make timely and appropriate transfers as necessary and required.

Conclusion – Response accepted.

CITY OF MADRID

Staff

This audit was performed by:

**Bowman & Miller, P.C.
Certified Public Accountants
Marshalltown, IA 50158**

Personnel:

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